



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 4, 2011

TO: Santos H. Kreimann, Director
Department of Beaches and Harbors

FROM: Jim Schneiderman, Chief
Audit Division 

SUBJECT: **REVIEW OF GROSS RECEIPTS REVENUE FOR THE MARINA DEL
REY HOTEL AND MARINA – PARCEL 42/43**

At your request, we reviewed the gross receipts reported by Marina del Rey Hotel and Marina (Marina del Rey or Hotel), Parcel 42/43, from August 1, 2003 to the Hotel sale date, May 19, 2006. We compared the gross receipts reported by the Hotel to the Hotel's accounting records and other documents to determine if the Hotel accurately reported their gross receipts and paid the correct percentage rent to the County.

The issuance of our report was delayed in part because the lessee from our audit period sold the Hotel to another party. This change made it difficult to get information from the prior lessee, and the Hotel's prior management took approximately eight months to respond to our draft report. Our completion of the report was also delayed by other, higher priority assignments.

Our review disclosed that the Hotel underreported its gross receipts by approximately \$868,000. As a result, the Hotel owes the County \$110,292 in percentage rent as shown in the Attachment.

Approximately \$667,000 of the underreported gross receipts amount was a result of the Hotel underreporting revenue for the owner, the owner's personal staff and complimentary room occupancies, and anchorage/boat slip rentals. Specifically:

- The Hotel's owner occupied and permanently reserved a room for his personal use for the entire review period. Although the daily rate for this room was \$540,

the Hotel paid percentage rent on a rate of \$300 a day for 31 months. As a result, the Hotel underreported its room revenue by approximately \$220,000.

- The Hotel owner's personal staff occupied several rooms for five months during the review period, and the Hotel did not report the revenue or pay the percentage rent. The daily room rate was \$116, resulting in the Hotel underreporting its room revenue by approximately \$104,000.
- The Hotel provided complimentary rooms throughout the audit period and did not pay the percentage rent. The daily room rate was \$169, resulting in the Hotel underreporting its room revenue by approximately \$145,000.
- The Hotel was unable to provide the supporting documentation needed to verify the gross receipts for anchorage/boat slip rentals reported to Department of Beaches and Harbors (DBH). As a result, we estimated the gross receipts. The Hotel underreported its anchorage/boat slip rentals by approximately \$198,000.

Based on the lease's percentage rent of 7.5% for the hotel rooms, the Hotel owes DBH \$40,038 in percentage rent, including interest, for the rooms occupied by the Hotel owner, the owner's personal staff and complimentary rooms. In addition, based on the lease's percentage rent of 25% for the boat slips, the Hotel owes DBH \$54,155 in percentage rent, including interest, for anchorage/boat slip rentals.

The remaining \$16,099 of the \$110,292 owed was the net result of approximately \$201,000 of underreported revenues for all other revenue categories.

Detailed schedules of our calculations of underreported gross receipts and percentage rent due to the County mentioned above were provided to and approved by your staff.

Review of Report

Overall, Hotel management was cooperative and provided assistance during our review. On June 21, 2010, we discussed our report with Marina del Rey management. Hotel management disagreed with the amount due related to owner, personal staff and complimentary room occupancy. Hotel management also disagreed with the estimated gross receipts for anchorage/boat slip rentals.

We discussed Hotel management's concerns with DBH and County Counsel. DBH and County Counsel agreed with our findings and the amount due. DBH will work with the Hotel to collect the amount due to the County.

Please call me if you have any questions, or your staff may contact Michelle Romero at (213) 253-0154.

Santos H. Kreimann
March 4, 2011
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Attachment

c: Wendy L. Watanabe, Auditor-Controller
Haroon Khan, Al-Anwa Investment Holding Co.
Thomas Faughnan, Principal Deputy County Counsel, County Counsel
Audit Committee

MARINA DEL REY HOTEL AND MARINA
SCHEDULE OF GROSS RECEIPTS
August 1, 2003 though May 19, 2006

	Lease Rent Percent Rate	Gross Receipts Reported by Hotel	Audited Gross Receipts	Gross Receipts Under/(Over) Reported	Rent / (Credit) Due
<u>Lessee: Marina del Rey</u>					
Dry Storage	10.0%	\$ 12,617	\$ 16,559	\$ 3,942	\$ 394
Hotel/Motel Rooms	7.5%	10,104,106	10,104,150	44	3
Forfeit Deposit/No Show Revenue	7.5%	57,184	56,997	(187)	(14)
Meeting Rooms	7.5%	158,764	159,863	1,099	82
Land/Water Facilities	7.5%	3,930	-	(3,930)	(295)
Office Rentals	11.0%	4,550	9,350	4,800	528 ¹
Commissions - Telephone Service Charge ²	10.0%	133,606	223,291	89,685	8,969
Commissions - Laundry & Dry Cleaning ³	10.0%	9,143	10,248	1,105	111
Commissions - Service Enterprises - Movies ⁴	5.0%	7,209	72,047	64,838	3,242
Commissions - Service Enterprise - Cab	20.0%	16,800	17,550	750	150
Commission on Audio Visual ⁵	20.0%	14,776	-	(14,776)	(2,955)
Commissions - Service Enterprise - VIP Tour	20.0%	38,250	37,950	(300)	(60)
Service Enterprise - A/V Equip. Rental ⁴	5.0%	8,539	54,369	45,830	2,291
Telephone/Vending Commissions	25.0%	1,048	328	(720)	(180)
Telephone/Vending Gross Receipts	5.0%	26,648	7,981	(18,667)	(933)
Bar/Cocktail Lounge	10.0%	310,575	310,797	222	22
Waterfront Restaurant	3.5%	1,005,295	1,013,129	7,834	274
Banquet/Catering	3.5%	1,296,579	1,289,078	(7,501)	(263)
Restaurant Beverage	3.5%	120,253	119,985	(268)	(9)
Banquet Misc. Revenue	3.5%	58,270	81,886	23,616	826
Banquet Beverage	3.5%	238,670	240,092	1,422	50
Audio Visual Equipment Rental ⁵	3.5%	5,720	-	(5,720)	(200)
Banquet Service Charge	3.5%	312,535	312,535	0	0
Room Service Beverage	3.5%	20,606	21,619	1,013	35
Room Service	3.5%	133,749	133,785	36	1
Miscellaneous Sales	5.0%	77,647	56,808	(20,839)	(1,042)
Interest Calculated at 10% Per Annum					1,730
Subtotal Gross Receipts		\$ 14,177,069	\$ 14,350,396	\$ 168,527	\$ 12,229
<u>Imputed Anchorage/Boat Slips</u>					
Anchorage/Boat Slips ⁶	25.0%	\$ 4,750,759	\$ 4,948,702	\$ 197,943	\$ 49,486
Interest Calculated at 10% Per Annum					4,670
Payment Error Credit					(1)
Subtotal Imputed Anchorage/Boat Slips		\$ 4,750,759	\$ 4,948,702	\$ 197,943	\$ 54,155
<u>Sublessee</u>					
Retail Sales (Gift Shop) ⁷	2.0%	\$ 93,631	\$ 106,822	\$ 13,191	\$ 264
Equipment Rental (Gift Shop) ⁸	10.0%	-	19,175	19,175	1,918
Interest Calculated at 10% Per Annum					300
Payment Credit					(501)
Payment Error Credit					1
Subtotal Sublessee		\$ 93,631	\$ 125,998	\$ 32,367	\$ 1,982
<u>Owner/Staff/Complimentary Room Occupancy</u>					
Hotel/Motel Rooms ⁹	7.5%	\$ -	\$ -	\$ 469,002	\$ 35,175
Interest Calculated at 10% Per Annum					4,863
Subtotal Owner/Staff/Complimentary Room Occupancy		\$ -	\$ -	\$ 469,002	\$ 40,038
<u>Payment Errors</u>					
Payment Errors ¹⁰					1,888
Subtotal Payment Errors					\$ 1,888
Total Rent Due					\$ 110,292

MARINA DEL REY HOTEL AND MARINA
FOOTNOTES TO SCHEDULE OF GROSS RECEIPTS
August 1, 2003 though May 19, 2006

- ① The Gross Receipts Under Reported amount of \$4,800 and Rent Due of \$528 is not included in the Subtotal Gross Receipts. Adjustments to Office Rentals - Gift Shop Rent is the result of reporting the greater of Office Rentals or Gift Shop Gross Receipts, as approved by the DBH and as indicated in Amendment No. 4 of the lease agreement. Because Gift Shop Gross Receipts is greater, the Gross Receipts Under Reported amount of \$4,800 and Rent Due of \$528 should not be charged.
- ② Marina del Rey reported the incorrect commission amount earned from Telephone Service Charges.
- ③ Marina del Rey reported the gross receipts instead of the commission amount earned from Laundry & Dry Cleaning.
- ④ Marina del Rey incorrectly reported the net profits for this revenue category, instead of gross receipts as required.
- ⑤ Marina del Rey incorrectly reported the net profits from audio visual charges, instead of gross receipts as required. In addition, the Hotel reported the amounts in the incorrect category.
- ⑥ Marina del Rey was unable to provide the supporting documentation to verify gross receipts reported to the DBH. As a result, we imputed the Anchorage/Boat Slip's gross receipts using the prior audited rent, adjusted by the Consumer Price Index.
- ⑦ Marina del Rey was unable to provide the accounting records to verify gross receipts reported to the DBH. As a result, we imputed the Retail Sales' gross receipts using the prior audited rent, adjusted by the Consumer Price Index.
- ⑧ Marina del Rey incorrectly reported gift shop equipment rentals in gift shop retail sales for the audit period.
- ⑨ Marina del Rey underreported revenue for owner, personal staff and complimentary room occupancy. The Hotel owes DBH \$40,038 in percentage rent, including interest for the rooms occupied by the Hotel owner, personal staff and complimentary rooms.
- ⑩ Marina del Rey made payment errors from applying the incorrect percentage rental rates during the audit period for movies, audio visual, restaurant, banquet and room service. As a result, Marina del Rey underpaid the monthly percentage rent due. We corrected the percentage rental rates in accordance with Amendment No. 7 of the lease agreement.